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Crypto in client portfolios? Advisors on bitcoin, 1 year after ETF approval

By Rob Burgess
January 02, 2025, 5:17 p.m. EST

Nearly one year ago, the SEC approved the first spot bitcoin exchange-traded funds.

Since then, BlackRock's iShares Bitcoin Trust (IBIT) has grown to $50 billion in assets — growth that a Bloomberg Intelligence analyst recently called "unprecedented": "It's the fastest ETF to reach most milestones, faster than any other ETF in any asset class," said James Seyffart.

It's perhaps no surprise that in December, the BlackRock Investment Institute stated that giving bitcoin a 1% to 2% weighting would be a "reasonable range."

Experts adding cryptocurrency ETFs to client portfolios in the past year said they mostly agree with BlackRock's assessment. However, despite bitcoin briefly soaring past $100,000 after crypto-friendly Donald Trump's reelection in November, widespread adoption of these ETFs may still require some work. (The value of bitcoin ETFs generally mirrors the market movements of bitcoin.)

'Prepare your clients for the long winters that come with this asset'

Ryan A. Hughes, founder and portfolio manager at Bull Oak Capital in San Diego, said he agreed with BlackRock's viewpoint that a bitcoin allocation needs to be sized carefully.

"It is such a volatile asset, where 75% drawdowns are the norm," he said. "If an advisor truly believes in bitcoin, it is best to prepare your clients for the long winters that come with this asset."

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T.J. van Gerven, founder of Memento Financial Planning in Woburn, Massachusetts, said he also agrees that bitcoin is a viable asset class and can help the risk and reward characteristics of an overall portfolio when combined with traditional asset classes like stocks and bonds.

"I've been following bitcoin since 2011 and was highly skeptical for many years," he said. "However, its utility as a decentralized 'storage of value' that can't be manipulated by central banks serves as a valuable asset. I believe that the chances of bitcoin going to zero are very low, given its increasing adoption rate and that it has functioned as designed since inception."

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Allocations can depend on client risk tolerance and other factors
Jirayr Kembikian, co-founder and managing director of Citrine Capital in San Francisco, said bitcoin has become a pivotal component of a well-diversified portfolio.

"Its unique characteristics make it highly attractive for both risk reduction and return enhancement," he said. "We've been including bitcoin in client portfolios, as appropriate, since 2020. However, over the last year, their interest has grown significantly. Many have expressed gratitude for the foresight in including bitcoin during earlier allocations."

Bryan Courchesne, CEO and founder of Digital Asset Investment Managementi in Newport Beach, California, specializes in cryptocurrency. He said strategies involving crypto, particularly starting with an allocation to bitcoin, are sure to become more prominent in client portfolios in 2025.

"Bitcoin has consistently demonstrated strong performance as an investment and it cannot be denied in portfolios," he said. "Investing in other cryptos or meme coins can be more dangerous than your Uber driver makes it seem, but with experienced guidance, there is the potential to unlock outperformance."

Kembikian said over the past few months, his firm has increased its target allocation to bitcoin in client portfolios, where appropriate.

"This reflects our growing confidence in its role as a valuable portfolio asset," he said.

Hughes said his firm allocates some of their clients to this asset class, depending

on their risk tolerance and time horizon.

"If a client is normally skittish and always tends to call during any market turn, perhaps it is best to avoid a bitcoin allocation. However, we have some younger clients with a long time horizon and an iron stomach. These clients are probably best suited for a crypto allocation."

While it is a relatively volatile asset, given its low correlation to traditional asset classes and high expected returns, van Gerven said he believes it's worth at least having some level of allocation of bitcoin.

"Within client-managed portfolios, we recommend having at least a 5% allocation depending on risk tolerance and risk capacity," he said. "It's incredibly important that clients understand the reasons behind adding an allocation to ensure conviction during inevitable bear markets, given how dramatic drawdowns can be. It's also important to separate bitcoin from cryptocurrency at large, as the majority of cryptocurrencies are Ponzi schemes where the supply can be manipulated and can very easily experience permanent loss of capital."

Andy Cole, a financial advisor with Fiduciary Financial Advisors in Huntsville, Alabama, said if an advisor doesn't include gold in portfolios because they don't pay a dividend or interest like stocks and bonds, then they probably won't be inclined to include bitcoin in portfolios for the same reason.

"Therefore, I think it isn't likely that advisors that are only currently using 60% stock and 40% bonds will jump straight to adding bitcoin," he said. "The advisors that are comfortable with adding bitcoin are probably the same advisors already using other alternatives beyond stocks and bonds."

For advisors who are inclined to include bitcoin in portfolios, Cole said the next question is, "How much is appropriate?"

"In terms of portfolio math, I believe BlackRock's views of 1% to 2% for a moderate risk portfolio are in the right ballpark," he said. "Let's assume an advisor views bitcoin as digital gold and would otherwise place 10% of a portfolio in gold. Over the past five years, bitcoin has been about five times as volatile as gold. If they are looking to replace a portion of their 10% gold sleeve with bitcoin, then a 1% to 2% allocation seems to be about right when considering the five-times difference in volatility."

What changed over the past year

Nearly a year after the launch of bitcoin ETFs, Kembikian said his optimism has only increased.

"The use cases for bitcoin are expanding, and adoption continues to rise," he said. "Most notably, discussions around bitcoin being considered as a potential reserve asset for governments — including the United States — reflect a profound shift in sentiment and recognition of its value."

Hughes said having a spot bitcoin ETF "sure makes it a lot easier to allocate to this space."

"I am waiting for a large-cap-style crypto index ETF that would allocate to the 10 largest cryptocurrencies out there," he said. "I fear we are years away from this happening. Though, a spot bitcoin ETF is a great start."

The recent price increases in crypto generally have helped to legitimize this asset within the industry, said Hughes.

"I still believe there is a lot of progress to be made, as most advisors are still highly skeptical of this asset class and still ignore it," he said. "But, we seem to be trending in the right direction."

Courchesne said as it has only been a year since these bitcoin ETFs have been introduced, many investors want to see them build a track record before investing.

"We think there will be more cases made for portfolio allocation," he said.

Christopher Haigh, chief executive officer and founder of Iconoclastic Capital Management in Rochester, New York, said he has personally been invested in crypto since 2013. His firm added a 1% to 4% allocation to the Bitwise Bitcoin ETF (BITB) to all client accounts in February 2024, he said.

In July 2024, regulators approved the first U.S. ETFs investing directly in ether, the world's second-largest cryptocurrency. Haigh said he has since allocated to Bitwise Ethereum ETF (ETHW) as well.

Haigh said he mostly agrees with BlackRock's allocation assessment, but not that it stops at 2%.

"That seems like a bailout statement from them and a way to cover themselves instead of actual conviction," he said. "It depends on the client, but we are very forward and transparent about our allocation to bitcoin in their portfolios, and most of them are willing to learn more about it."

Haigh said the bitcoin ETF approvals were nerve-wracking at first, but the bitcoin rally in the later part of 2024 was "a nice confirmation" of his beliefs.

"My only thoughts that have changed have been around how useful the volatility of crypto can be in a portfolio if you have the right tools," he said.

Haigh said his firm uses Altruist, and its model portfolio technology allows them to capture many buying opportunities as well as tax-loss harvesting. He said being able to trade BITB for Fidelity Wise Origin Bitcoin Fund (FBTC) or ARK 21Shares Bitcoin ETF (ARKB) "is a huge advantage."

Overall, Haigh said he believes dollar-cost averaging and consistent investing principles reign supreme.

"It makes me apprehensive to invest lump sums at all-time highs, which is a more common conversation now as clients are trying to chase the wave," he said.